February 2023

In Sight

This Quarter's Round-up

Regular Features

Consultations on DB Funding Code

The Pensions Regulator has published its long-awaited second consultation on a new code of practice for defined benefit scheme funding. It comes with a separate consultation on Fast Track and a twin track regulatory approach.

Under the current proposals, Fast Track is largely a filtering mechanism for the Regulator's workload, to identify schemes that are unlikely to require regulatory engagement. Fast Track only assesses compliance with some aspects of the code, with wider trustee consideration of employer covenant and risk management still required in addition even if a scheme meets the Fast Track criteria.

Continued on next page

As a re-cap, the draft code reflects the Pension Schemes Act 2021 and draft regulations that will require:

- Schemes to be fully funded on a low dependency basis (and to have adopted a low dependency investment strategy) by the time they are 'significantly mature';
- A statement of strategy to be produced/revised as part of actuarial valuations (and following major developments), detailing the scheme's journey plan to the low dependency state; and
- Consideration of the strength of the employer covenant, as well as the timescales for reaching significant maturity, when determining the level of risk that can be taken.

There are a number of areas in which the principles outlined in the draft code appear more flexible than might have been expected, based on the draft regulations on which the DWP consulted recently (as outlined in November's In Sight). For example:

- On recovery plans — the draft regulations suggested giving primacy to recovering deficits 'as soon as the employer can reasonably afford' whereas the draft code suggests a number of additional factors can be taken into account; under Fast Track, recovery periods can be up to six years (or three years once significantly mature).
- On low dependency investment allocation — the draft regulations suggested assets should be invested in a way that is 'highly resilient' to short-term market movements in comparison with liabilities whereas the draft code suggests a significant amount of flexibility, with the Regulator suggesting that Bespoke (the alternative to Fast Track under its proposed twin-track approach to assessing valuations) will allow up to 25-30% in growth assets for significantly mature schemes.

One area of particular uncertainly is at what point a scheme will be considered to be significantly mature (and therefore expected to fund based on the low dependency investment allocation). Although the draft code suggests a duration of 12 years will be the threshold (as anticipated), the consultation also considers possible alternative approaches to reduce the volatility of this target date.

There is a revised approach on employer covenant, with the current four categories of 'strong' through to 'weak' being replaced by a more holistic approach. There is a lot of detail in the draft code on assessing covenant (with more expected in updated employer covenant guidance due later this year) and ensuring risks are supported by the covenant during the journey to significant maturity. Although Fast Track does not differentiate by covenant strength, the draft code is clear that trustees will still need to undertake an assessment of covenant.

A summary of the proposals is set out in our In Touch.

Both consultations close on 24 March 2023. The new code is expected to come into force, along with final regulations, for valuations with effective dates on or after 1 October 2023 at the earliest.

Action

Trustees and employers should consider how the scheme's current long-term funding target and journey plan compare with the proposed new requirements or consider how they will set a long-term funding target and journey plan if they have not already done these. They should also consider how they will comply with the proposed new funding regime and whether Fast Track compliance would be appropriate for their circumstances.

Pension Schemes Act — State of Play

Many of the provisions of the Pension Schemes Act 2021 are now in force, with several sets of regulations in place along with Pensions Regulator publications. This is the current state of play:

Topic	Consultation and Regulation Timing	Measures Are *(or expected to be)* In Force
Climate Change Governance and Reporting	New requirements for TCFD reporting came into force on 1 October 2021. From 1 October 2022, trustees are also required to select and calculate a new Paris alignment metric and the DWP updated its guidance. The Pensions Regulator has issued supporting guidance.	1 October 2021 for schemes with assets over £5 billion 1 October 2022 for schemes with assets over £1 billion
New Criminal Offences	Two new criminal offences have been introduced. The Regulator has published its policy on investigation and prosecution of these. The Regulator has also published its final enforcement and prosecution policies – see page 6.	1 October 2021
New Powers For The Pensions Regulator	The Regulator's powers are in force, other than for notifiable events – see below.	1 October 2021 (Code of practice 12 came into effect 25 November 2021)
Limiting Transfer Rights to Help Prevent Pension Scams	Regulations are in force. The Pensions Regulator has issued guidance on dealing with transfer requests.	30 November 2021
CDC Scheme Framework	The legislative framework is in place. The Regulator's code of practice is in force.	1 August 2022
Pensions Dashboards	The pensions dashboards regulations are in force and the Pensions Dashboards Programme (PDP) has issued supplementary standards. The Pensions Regulator has issued supporting guidance.	Largest schemes will start connecting from April 2023
Scheme Funding	DWP consultation on draft regulations closed 17 October 2022. A separate consultation is underway on the related details of the Regulator's code of practice – see page 1.	*The code is expected to be operational from 1 October 2023*
Extended Notifiable Events Framework	Consultation on draft regulations closed 27 October 2021. The final regulations are still awaited.	*Effective date unknown.*

Regulator Statements in Response to Gilt Market Movements

Managing Investment and Liquidity Risks

Following the turbulence in the financial markets in late September and early October, the Pensions Regulator published a statement on Managing investment and liquidity risk in the current economic climate. This set out actions for trustees to consider in the near-term as they navigate market volatility.

The Regulator notes that gilt yields increased at unprecedented speed and magnitude in September and that this created issues for both defined benefit (DB) and defined contribution (DC) schemes.

For DB schemes, it created liquidity pressures as LDI (Liability Driven Investment) managers urgently sought further collateral. The Regulator notes that a DB scheme that does not meet collateral requirements may lose some of its hedging protection, meaning that its funding level is less well protected against a fall in bond yields in future.

For DC schemes, members may have experienced a reduction in the value of their savings, particularly those closer to retirement who tend to have a higher allocation to gilts as they approach their expected retirement date. However, individuals considering purchasing an annuity may also find that they can achieve a higher pension as yield changes feed through to annuity rates.

The statement set out the Regulator's expectations for both DB and DC schemes:

- Trustees of DB schemes are encouraged to engage with their investment advisers – in particular, they are expected to review their operational processes, liquidity position, liability hedging position, and funding and risk position. They should also consider how current yields impact on other areas of the scheme.
- For DC scheme trustees, expectations include communicating with savers who are approaching retirement to make them aware of their options and emphasising the importance of seeking financial advice, reviewing their investment strategy and operational factors in executing this strategy, and reviewing processes to ensure that they can act at speed where necessary. In January, a further guidance statement was issued for DC trustees — see page 11.

Maintaining LDI Resilience

In November, the Regulator published a further statement — on Maintaining liability-driven investment resilience — calling on trustees who use LDI to maintain an appropriate level of resilience in leveraged arrangements to better withstand a fast and significant rise in bond yields, and to improve their operational governance.

The Regulator welcomes a statement by National Competent Authorities (NCAs) — the Central Bank of Ireland and the Commission de Surveillance du Secteur Financier (Luxembourg) — on the resilience of LDI funds, and sets out guidance for trustees, including recommended actions.

The Regulator states that if a scheme is not able to hold sufficient liquidity or is unwilling to commit to that level of liquidity, the trustees should consider the level of hedging with their advisers to ensure that they have the right balance of funding, hedging and liquidity. For schemes that decide to adopt an investment strategy with a reduced hedge, this should be done in a predetermined manner by the trustees, having taken appropriate advice.

The Regulator also says that trustees are responsible (usually with advice) for testing the liquidity buffer of their scheme. The guidance sets out specific steps for trustees to take if there is a departure from the liquidity buffers set by the NCAs.

In addition, the Regulator recommends that trustees review their governance processes in light of the challenges that arose during the volatility of September and October 2022. It suggests ten practical steps to ensure trustees can react quickly to further stress in the market.

The Regulator also notes that some schemes may prefer to establish a line of credit with their sponsoring employer to ensure liquidity. Such agreements should be documented and reviewed regularly.

The Regulator concludes that it is ‘alive to’ the constantly changing market conditions and the implications for the future and continues to discuss liquidity issues with external stakeholders with a view to providing clear longer-term expectations. It plans to issue a further update in its Annual Funding Statement in April 2023, and in further statements and investment guidance as necessary.

The Bank of England’s Financial Policy Committee recommended further regulatory action by the Regulator and others in its December 2022 Financial Stability Report. It welcomed ‘as a first step’ the Regulator’s November guidance statement.

The House of Commons’ Work and Pensions Committee held a short inquiry on the lessons to be learned from the experience of schemes using LDI. The areas of interest included the impact on both DB and DC pension savers and whether trustees had adequate governance arrangements in place and sufficiently understood the risks involved. In addition, the House of Lords’ Industry and Regulators Committee explored the use of LDI by pension funds including the role of regulators in overseeing its use.

Action

Trustees should consider the Regulator’s expectations and comments set out in its statements, where relevant.

Pensions Regulator Update

Enforcement Powers

Following a consultation in 2022, the Regulator has published a new enforcement strategy, together with an updated and consolidated enforcement policy and an updated prosecution policy. The Pension Schemes Act 2021 expanded some of the Regulator's enforcement powers, allowing it to impose criminal sanctions and greater financial penalties, introducing additional circumstances in which it can issue a contribution notice, and enhancing its inspection and information gathering powers. In a blog published at the same time, the Regulator's Director of Enforcement wrote that "while our new strategy, and these policies, are not a fundamental change in our approach, they give a clearer understanding of the enforcement journey and factors we will take into account throughout the life of a case".

The enforcement strategy sets out the overarching aims of the Regulator's enforcement work, excluding auto-enrolment. It explains that it takes a risk-based and proportionate approach, guided by its statutory objectives.

The enforcement policy sets out the Regulator's approach to the investigation of cases, excluding auto-enrolment. It explains how it identifies and responds to risks and harm, how it decides whether to open an investigation, and how it determines what if any enforcement action is appropriate. This replaces previous separate policies for DB funding, DC schemes and public service pension schemes.

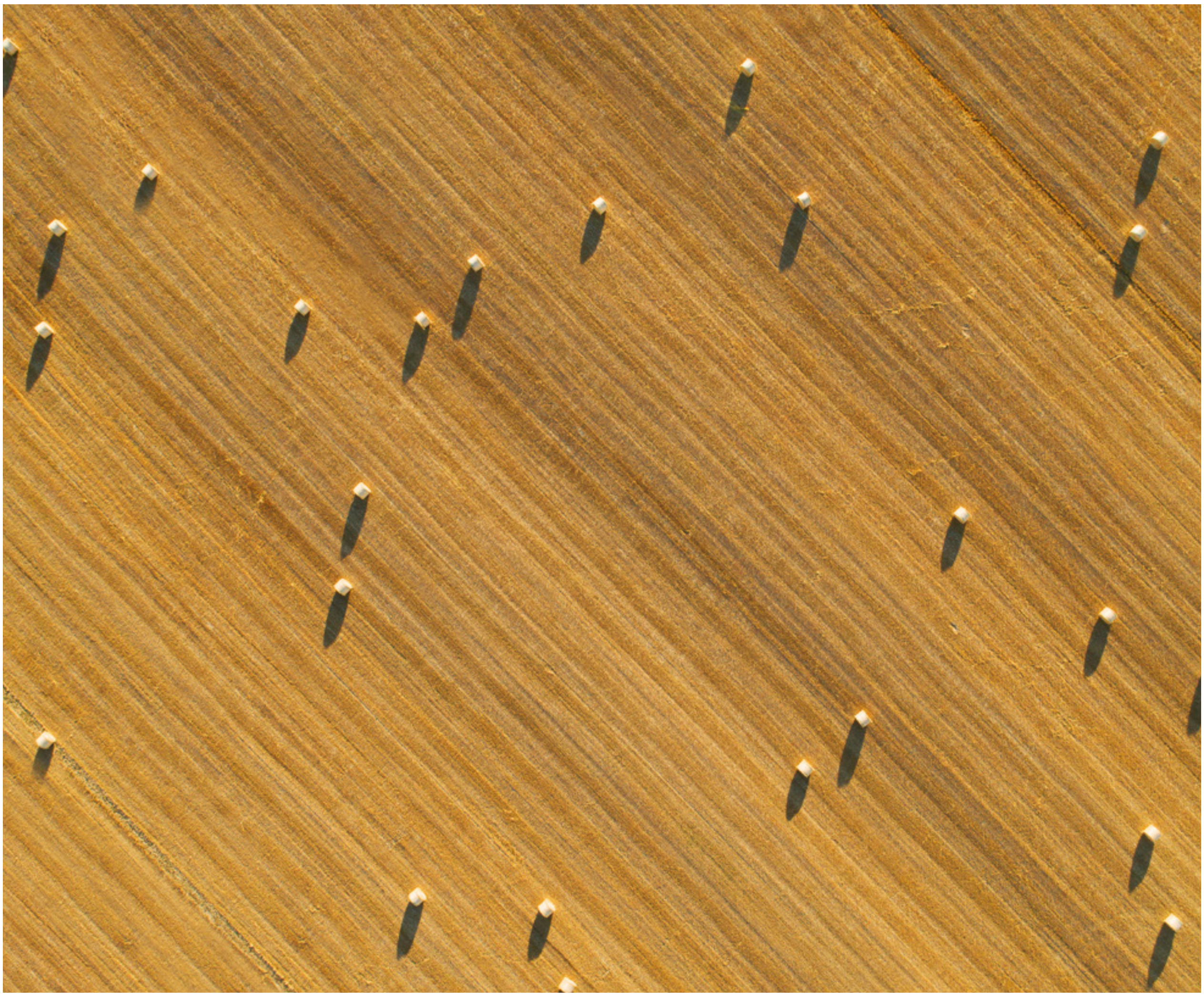
The prosecution policy explains the Regulator's approach to the prosecution of workplace pension criminal offences and other types of offences that are related to its functions. It will apply its risk-based approach to prosecution decisions and consider each case on its particular facts.

Regulator Progress on EDI

The Pensions Regulator has published a blog discussing its progress on equality, diversity and inclusion (EDI), which follows publication of its recent action plan. As well as outlining what it is doing within its own organisation, the Regulator discusses what is being done to improve EDI across the industry. Among other things, it will be providing practical tools on recruiting diverse candidates, creating and maintaining an inclusive culture, engaging with employers on diversity and ensuring communications to scheme savers are inclusive.

Update on Single Code of Practice

Based on recent comments from the Regulator, we now expect the single code of practice to be published later this month. The Regulator consulted in 2021 on a new single code that would consolidate 10 of its existing codes, including those on internal controls and DC schemes. The new single code was expected to be laid before parliament in summer 2022, but it has been delayed.



DB Survey Data

The Regulator and the Pension Protection Fund (PPF) have published the results of various annual surveys on DB schemes, including information on funding and investment:

- The Regulator's Defined Benefit trust-based pension schemes research, based on its 2021 annual survey, focuses on current funding and investment practices, but also covers consolidation, climate change, pensions dashboards and the Regulator's single code of practice. The research comprised interviews with over 400 individuals (a mix of trustees and employer representatives) involved in managing DB schemes. It found that almost nine in ten trustees and employers had a long-term objective, and that 70% of schemes had a journey plan.
- The Regulator's Annual report on UK defined benefit and hybrid schemes focuses on the population of UK occupational schemes as at 31 March 2022. It includes data on scheme status, membership, employer type and scheme funding, and has a short section on public service schemes.
- The PPF's 17th edition of its Purple Book provides data and analysis regarding the risks posed by UK schemes protected by the PPF. Schemes' overall net funding position on a section 179 basis improved to a surplus of £193 billion in the year to 31 March 2022, with an aggregate funding ratio of 113.1%. The report showed the largest-ever annual fall in liabilities, with total s179 liabilities falling by almost 12% and buy-out liabilities falling by nearly 10% in the year to 31 March 2022.

News on Pensions Dashboards

The first pension schemes will soon start connecting to pensions dashboards and all schemes should now be preparing.

The Department for Work and Pensions' (DWP) pensions dashboard regulations came into force on 12 December 2022, setting out the obligations for trustees of occupational pension schemes. The Financial Conduct Authority (FCA) has introduced corresponding rules for providers of personal and stakeholder pension schemes.

The Pensions Dashboards Programme (PDP) has released finalised versions of its standards, setting out the technical and operational detail that underpins the legislation.

There is no date given yet for the Dashboards Available Point (the date when members will be given access to dashboards), but the regulations require at least six months' notice to be given.

Staging timeline confirmed

Schemes now know with certainty when they will need to connect to the dashboards ecosystem. Occupational schemes in scope will start connecting from April 2023 — a reminder of the staging deadlines for large schemes is in the table below. Medium schemes (with between 100 and 999 relevant members) will connect in bands with deadlines from October 2024 to October 2025. Currently, small schemes (with fewer than 100 members) are not within scope; the DWP expects that they will have to connect from 2026.

The regulations allow schemes to apply to defer their deadline by up to 12 months, but this is only possible in limited circumstances — for example, if the trustees had in good faith embarked on a programme to transition data to a new administrator before the regulations came into force. The DWP has issued final guidance, along with an application form, for applying for such a deferral. The guidance sets out the issues that trustees need to consider if they are applying for a deferral.

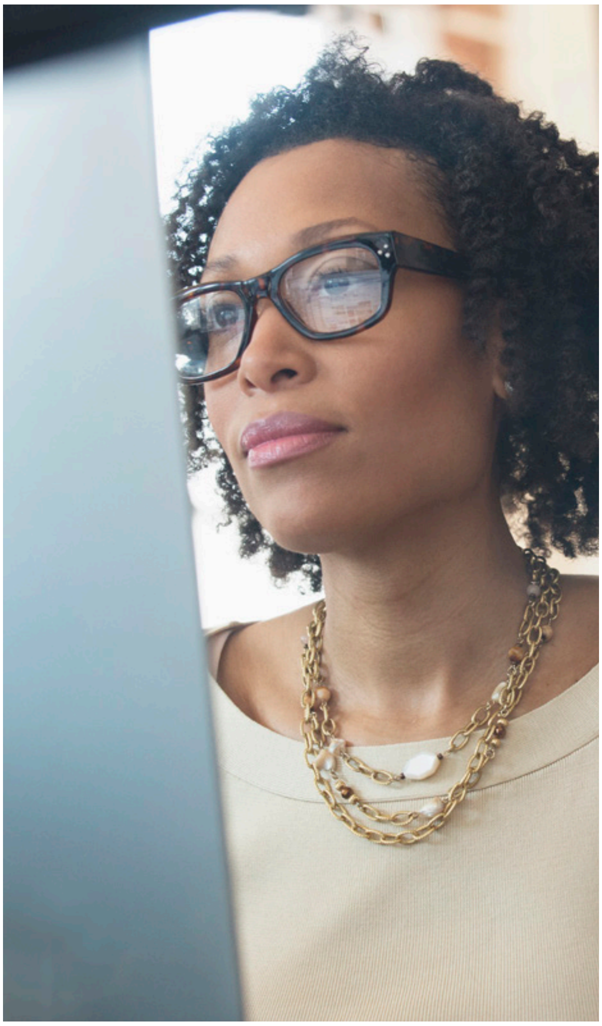
The FCA has adjusted its proposed implementation deadline to 31 August 2023 for most of its providers, to align with the deadline for the largest master trusts in the DWP regulations.

Staging Deadline timeline (end of month shown) for large private sector occupational schemes:

Relevant members (excludes pensioners)	Master trusts	Money purchase Used for auto-enrolment	Other money purchase	Defined benefit
20,000+	Aug 2023	Sep 2023	Nov 2023	Nov 2023
10,000-19,999	Sep 2023	Sep 2023	Mar 2024	Mar 2024
5,000-9,999	Oct 2023	Oct 2023	Jun 2024	Jun 2024
2,500-4,999	Jan 2024	Jan 2024	Jul 2024	Jul 2024
1,500-2,499	Feb 2024	Feb 2024	Aug 2024	Aug 2024
1,000-1,499	Feb 2024	Feb 2024	Sep 2024	Sep 2024

Consultation on Dashboards Compliance and Enforcement

The Pensions Regulator is consulting on its draft dashboards compliance and enforcement policy. This sets out the Regulator's expectations on how schemes should comply with the new regulations, and its approach to enforcement in the event of a breach of the requirements. The Regulator has said that it will be pragmatic in its approach but that it will take a dim view of wilful or reckless non-compliance. The consultation closes on 24 February 2023 and the final policy is expected in spring 2023.



Regulatory Framework for Dashboard Providers

The FCA will be responsible for regulating operators of commercial dashboards, known as qualifying pensions dashboard services (QPDSs). It is currently consulting on the proposed regulatory framework for those firms.

Running alongside this, the PDP is consulting on the design standards for how dashboards will display pensions information. The standards outline how the information must be clearly presented to the user in a comprehensible manner that is accessible and inclusive. This consultation will be of interest to pension schemes and providers as it explains how the pensions information they return to dashboards will be displayed.

Both consultations close on 16 February 2023, and it is expected that the final standards will be published in the summer.

The MoneyHelper dashboard, that is being developed by the Money and Pensions Service (MaPS), will be available to any user and will operate alongside multiple commercial dashboards. It does not have to follow the design standards but will do so as far as possible.

Action

Pensions dashboards should be a standing item on board agendas. Trustees should discuss with their advisers the support they may need, including training and project management, and ensure that their administrators are on track to comply with the new requirements.

For most schemes the primary actions at this stage are to establish the availability and quality of data needed for dashboards, and to understand the extent to which the necessary calculations are available and automated, in a way (and within the timescale) that is required by dashboards.

DC Investment in Less Liquid Assets

Given the substantial growth in the DC market in recent years, a key area of focus for the government is to encourage DC schemes to invest in a broader range of assets.

Charge Cap Changes and New Disclosures

Following consultation (see the November edition of In Sight), regulations are expected to be laid shortly that are intended to broaden the investment opportunities for DC pension schemes. These would enable trustees to exclude specified performance-based fees from the default fund charge cap calculations. Trustees of relevant DC schemes would also be required to disclose and explain (i) their policies on illiquid investments in respect of default fund assets; and (ii) their default fund asset allocation.

Working Group Guidance

The Productive Finance Working Group (PFWG) has published a series of guides designed to help DC pension schemes understand the key considerations and risks around investment in less liquid assets within default arrangements. The PFWG was convened in 2020 by the Bank of England, the Financial Conduct Authority and HM Treasury to develop practical solutions to the barriers to investment in less liquid assets; the group comprises several leading industry bodies, around 20 large DC schemes, investment managers and consultants (including Aon).

The PFWG notes that UK DC schemes currently invest relatively little in less liquid assets, compared to UK DB schemes and DC schemes in other countries, such as Australia. This reflects several factors, one of which is the focus of the UK DC pensions industry — across the entire supply chain — on keeping costs low. Investing in less liquid assets tends to be more expensive, may take longer to generate value, and some investments may fail to do so. However, some UK DC schemes are now starting to consider whether and how allocating to less liquid assets as part of a diversified portfolio within a default arrangement could improve member outcomes.

The new guides cover value for money, performance fees, liquidity management, fund structures, a legal guide to the Long-Term Asset Fund (LTAF), and due diligence. To support implementation in practice, consultants also published a joint commitment to shift the focus from cost to value when advising DC decision makers, and a call to action for DC investment platforms to evolve their processes and systems.

Regulator Calls for Better Investment Decision-Making

In a recent blog, the Pensions Regulator welcomed the publication of the above guides. It suggests that DC trustees should take advantage of available support and guidance to increase their investment decision-making skills and take action to enable pension savers to access the investment opportunities that best support good outcomes. The blog says that “even where trustees believe their scheme offers value for members, they should consider whether their members might be better served by consolidation with larger scale providers if they believe these have the potential for better member outcomes, for example because of greater governance resourcing and access to a wider range of investment and risk management opportunities.”

Other DC news

Regulator's guidance on current economic situation

The Pensions Regulator has released a guidance statement that highlights the importance of supporting DC members amid the current economic volatility. It builds on an earlier statement that focused on the issues trustees are expected to consider when managing investment and liquidity risks in the face of these market conditions – see page 4.

The latest guidance sets out key points on how schemes should communicate with and support members through this period. It has a particular focus on strengthening governance and oversight of DC schemes and on ensuring investment strategies achieve stronger member outcomes. Many of these messages are taken from the existing DC code of practice and associated guides, with comments on the impact of the current market environment.

The impact on DC savers will differ depending on their allocation to bonds, where they are in their retirement journey, and how they plan to access their pension savings. The Regulator particularly wants to ensure that those nearing retirement are adequately supported, so they understand what a fall in the value of their DC pots could mean and are cautioned against making hasty decisions that could result in poorer outcomes or lead to them being scammed. Trustees are reminded that they should encourage members to seek impartial guidance from MoneyHelper.

Action

The Regulator has provided a checklist to help trustees develop their own action plans. Trustees should consider the issues raised in this statement and take appropriate action as part of their ongoing governance responsibilities.

Retirement Living Standards Updated

The Pensions and Lifetime Savings Association (PLSA) has published updated figures for its Retirement Living Standards to reflect the substantial increases in cost of living over the last year.

First published in 2019, the standards are designed to help members understand how much money they will need to live the lifestyle they would like in retirement. Using independent research carried out at Loughborough University, they provide benchmark levels of annual income needed to fund three different lifestyles - **minimum, moderate** and **comfortable** - which aim to provide a rule of thumb guide based on common costs for many people.

The cost of a **minimum** lifestyle has increased from £10,900 to £12,800 (an increase of 18%) for a single person and from £16,700 to £19,900 (an increase of 19%) for a couple. The **moderate** level has risen by 12% for a single retiree and 11% for couples; and at the **comfortable** level, the increases are 11% and 10% respectively. The disproportionate increase in the cost of retirement for those looking to achieve a minimum lifestyle is down to the higher proportion of their budget going towards the things that have risen the most in price: food and energy.

Action

Trustees should ensure that any processes and communications that reference the Retirement Living Standards are updated as appropriate.

Employers undertaking benefit reviews may also find the latest information on retirement living standards helpful in setting benefit levels.

Joint Regulatory Strategy Updated

The Pensions Regulator and the Financial Conduct Authority have published an update to their 2018 joint regulatory strategy, with an accompanying blog. The update outlines how the regulators will continue to work together to deliver good outcomes for pension savers regardless of their pension type. It identifies eight ongoing joint workstreams: productive finance; value for money; a regulatory framework for effective stewardship (working alongside the Financial Reporting Council and the DWP); pension scams strategy; DB transfer advice; DB schemes and transfer activity; the pensions dashboard initiative; and supporting consumer decision-making throughout the pensions consumer journey.

Changes to DC Projections

The Financial Reporting Council (FRC) has published version 5.0 of Actuarial Standard Technical Memorandum 1 (AS TM1), which sets out the assumptions used for the Statutory Money Purchase Illustrations (SMPIs) provided each year to members with money purchase benefits. The new standard applies for all SMPIs issued from 1 October 2023. It will also be used to produce subsequent illustrations provided on pensions dashboards.

Action

Trustees should talk to the advisers who prepare their SMPIs to ensure that updated processes will be in place for the first statements to be issued on or after 1 October 2023. They may wish to ensure that SMPIs in relation to illustration dates in late 2022 or early 2023 are issued by the end of September 2023, and therefore before compliance with the revised AS TM1 is required. Trustees that are required to publish a Chair's statement should also discuss the impact this change may have on the production of costs and charges illustrations.

PPF Levies Confirmed for 2023/24

The Pension Protection Fund (PPF) has released its final levy rules for 2023/24. Invoicing is due to begin in autumn 2023.

The PPF is going ahead with all the changes it proposed in its September consultation (on which we reported in the November edition of In Sight). This means that almost all schemes are expected to see a reduction in their levy compared with 2022/23 — but there are exceptions, and there may still be actions that can be taken to reduce levies further.

The final Levy Determination also confirms that the changes to the asset information recorded on the Pension Regulator's scheme return will be going ahead — further details are set out below.

Actions and next steps

The main deadline for submitting information to the PPF will be midnight at the end of 31 March 2023.

Trustees and employers should consider obtaining an estimate of their potential 2023/24 levies and think about any appropriate mitigating action. In particular, they should review the information held by D&B to calculate insolvency risk if they have not already done so.

2023 Scheme Returns

All registrable schemes (i.e. registered schemes with more than one member) must complete a scheme return providing specified information to the Pensions Regulator. Except for a few very small schemes, a return must be made each year.

For DB and hybrid schemes, the Regulator will issue notices from 1 February 2023 and returns will need to be made by 31 March. In most cases the notice and required return will be in two parts. Part 1 will be completed in an online form and asks about the scheme's publication of its statement of investment principles, implementation report and climate change ('TCFD') report, including website addresses. Part 2 will be completed in Exchange as usual.

The main change this year to the information needed, is on the breakdown of the scheme's assets. This is used by the Regulator to measure investment risk and by the PPF to calculate its levy. As announced in October 2021, there will be a tiered approach, based on scheme size. Smaller schemes (less than £30 million) will see only minor changes, with larger schemes asked to provide more granular data. The largest schemes (£1.5 billion or more) will also have to provide new 'risk factor stress impacts' as required under the PPF levy rules (which replace the previous bespoke stress calculation). The Regulator's website explains what is needed.

For DC schemes, later deadlines apply; notices will be sent between July and December 2023, if the Regulator follows the same timetable as last year.

Since October 2022, trustees have been required to declare to the Regulator that they are complying with the requirements (introduced by the CMA in 2019) to carry out a tender process for fiduciary management services and to set objectives for their investment consultants. We expected new questions to be added to the 2023 scheme return to cover this, but the change has not yet made. The Regulator has said that it will collect this information through a separate exercise, but has not confirmed when this will happen, except that trustees will be given 'reasonable notice' to comply.

Actions

DB and hybrid schemes must complete their returns by 31 March 2023. Trustees should work with their advisers to ensure their return is submitted on time. Additional work will be required this year in collecting the new information required, including the revised asset class data.

The Regulator may impose a financial penalty if the deadline is missed and trustees have not taken all reasonable steps to secure compliance.

News Round-Up

Pay and Pension Contributions for Directors

The Investment Association (IA) has updated its *Principles of Remuneration* for the 2023 AGM season, and has published a letter to chairs of FTSE-listed remuneration committees. It urges committees to show additional restraint over executive salary increases, against a background of cost-of-living increases.

The IA's previous expectation was that executive pension contributions should be aligned with those for the majority of the company's workforce by the end of 2022, and it notes that most companies are now fully aligned. For 2023, the IA's Institutional Voting Information Service (that provides shareholders with corporate governance research to help with voting at AGMs) will give a 'red top' – its highest level of warning – to any remuneration policy or report where executive pension contributions are not aligned to the majority of the workforce.

Action

Employers should review pension contribution rates offered to executive directors where they have not already done so, and this may extend to other role-based contribution levels.

Autumn Statement 2022

Chancellor Jeremy Hunt delivered his Autumn Statement in November. Contrary to rumours, there were no changes to pensions taxation.

The Chancellor confirmed that the government will publish its second periodic review of State Pension Age in early 2023 (by legislation, the deadline is 7 May 2023). He said that the review "will need to carefully balance important factors, including fiscal sustainability, the economic context, the latest life expectancy data and fairness both to pensioners and taxpayers". The first such review in 2017 recommended that the increase in SPA from 67 to 68 should take place from 2037-39, seven years earlier than the current legislative timetable. At the time the government stated that it would legislate to bring forward that increase, but before legislating it would consider the most up-to-date life expectancy projections; the second review is part of that consideration.

Several changes to income tax were announced:

- The Personal Allowance (£12,570) will be frozen for a further two years, until April 2028. For taxpayers in England, Wales and Northern Ireland (Scotland sets its own thresholds other than the Personal Allowance) the 40% higher rate threshold (£50,270) will also be frozen until April 2028.
- The threshold for the 45% additional rate of tax will reduce from £150,000 to £125,140 from April 2023. (This applies for England, Wales and Northern Ireland.)
- The dividend allowance will reduce from its current level of £2,000, to £1,000 from April 2023 and then to £500 from April 2024. (A nil rate of income tax applies to dividend income below this allowance.)

The Finance Act 2023 implements the main tax changes.

Although income tax and National Insurance thresholds are to be frozen until 2028, no corresponding change was announced in relation to the pensions Lifetime Allowance. The March 2021 Budget said that this would be frozen for 2021/22 to 2025/26 inclusive; it is therefore still due to be reviewed from April 2026.

New Guidance on Climate Change

Two new pieces of guidance on climate change and pension schemes were issued in November.

Make My Money Matter published its first Climate Action Report. The campaign group identified five important measures that it believes all pension schemes should consider as fundamental, and then surveyed 20 of the largest DC workplace pension providers to see how they are keeping pace with the action required. The research identified emerging areas of progress, but also highlights steps needed by the pensions industry in 2023 if it is to fully play its part in limiting global warming to below 1.5°C. Its key recommendations include that all schemes should set short-term emission reduction targets and outline clear strategies stating how they will deliver on their net zero goals.

The Institute and Faculty of Actuaries, in collaboration with the Climate Crisis Advisory Group (CCAG), published a report Climate Emergency – tipping the odds in our favour; A climate-change policy briefing for COP27 that calls for policymakers and stakeholders to take a risk management approach to combat climate change. The report states that climate change is a "risk-management problem on a global scale", and that it is crucial that policymakers have a degree of climate and risk literacy as they plan for an uncertain future. The report looks at how actuarial risk-management techniques can be applied to the climate change problem, including what action to take to mitigate the extreme risks of climate breakdown.

Common Signs of a Pension Scam

In November, the Pensions Regulator, the Financial Conduct Authority and the Money and Pensions Service issued a joint warning to trustees and members amid concerns that strained household finances could leave savers more vulnerable to pension scams. The three bodies – all of whom are members of the Pension Scams Action Group, a multi-agency taskforce that is working to combat scams — expressed concern that fears caused by recent economic uncertainty may prompt savers to make rushed decisions about their finances. They warned that some of the common signs of a pension scam include:

- being contacted out of the blue
- phrases like 'pension liberation', 'loan', 'loophole', 'savings advance', 'one-off investment', 'cashback'
- guarantees of better returns
- help to release cash from a pension before the age of 55, with no mention of the HMRC tax bill that can arise
- high-pressure sales tactics – time-limited offers to get the best deal; using couriers to send documents, who wait until they're signed
- unusual high-risk investments, which tend to be overseas, unregulated, with no consumer protections
- complicated investment structures
- fixed-term pension investments – which often mean people who transfer in do not realise something is wrong for several years

Savers were also warned to be on guard against 'recovery room' scams or secondary scamming – which sees fraudsters approach people who have already been scammed and offer to help them get their money back in return for a fee.

Trustees are asked to remain vigilant to the risk of scams and suspicious transfer requests.

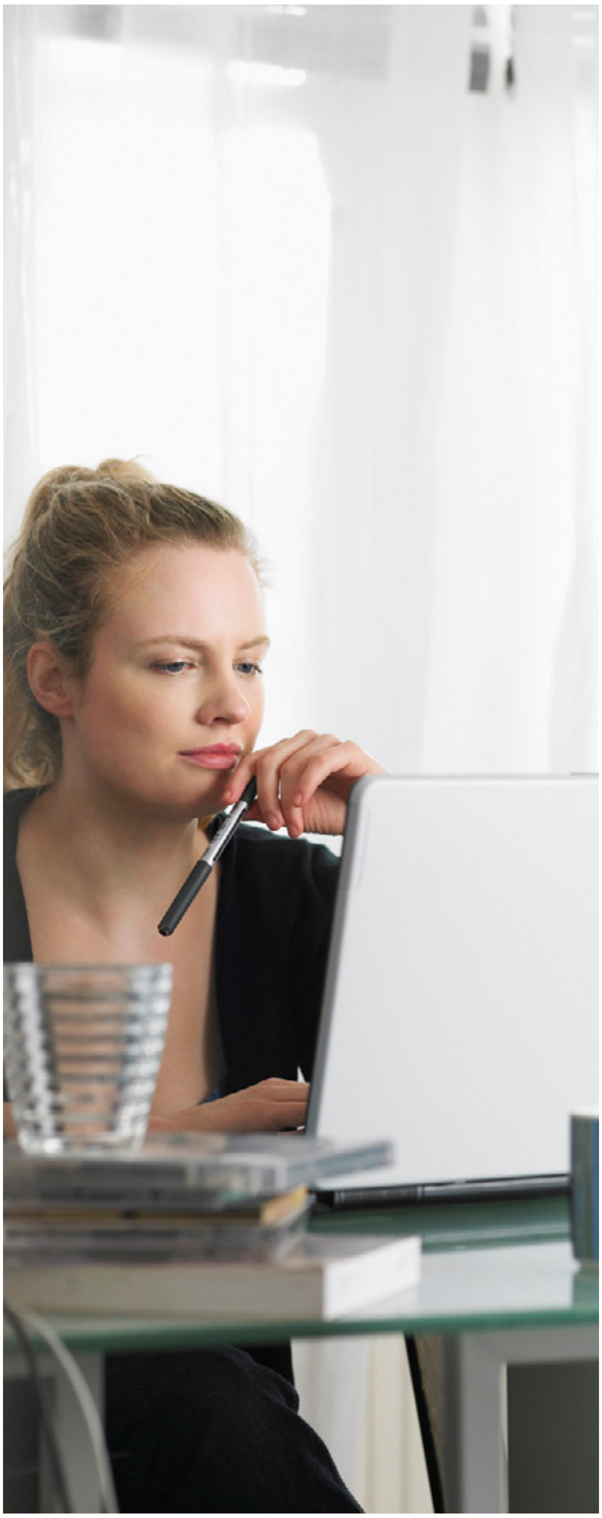
The warning has been backed by the new Pensions Minister, Laura Trott, who noted that the Government will continue to work closely with the industry, regulators and law enforcement to counter scams.

Final Report on Pension Freedoms Inquiry

In 2020 the Work and Pensions Committee (WPC) launched a three-part inquiry into the impact of the pension freedoms and the protection of savers.

In July 2021 the government responded to the first part of the inquiry, on pension scams and what more can be done to prevent them. In April 2022 the government (and the Financial Conduct Authority) responded to the second part, which looked at how savers are prepared and protected to move from saving for retirement to using their pension savings.

The WPC has now published its report on the third part — Saving for later life — looking at what more needs to be done to help people plan and save for retirement. The report notes that although auto-enrolment has been successful in increasing pension participation, over 60% of people are at risk of missing out on an adequate standard of living in retirement. It warns that minimum contributions to pensions are too low and that many self-employed and gig economy workers are being excluded completely from pension saving. The WPC suggests that a better evidence base is needed to understand the various issues and recommends that the government set up a new office tasked with this, that will report regularly on progress in meeting objectives, particularly relating to retirement adequacy and the gender pension gap.



On the Horizon

Here are some key future developments affecting pensions:

Early 2023

- Regulator's new single code expected to be laid before Parliament
- Consultation on design principles to accommodate new types of CDC schemes
- Government to report on the latest review of State Pension Age (the deadline is 7 May 2023)
- DWP, alongside the Financial Conduct Authority and the Pensions Regulator, will consult on a DC value for money framework
- Extension of notifiable events framework

April 2023

- Regulations are expected to come into force that will exempt specified performance-based fees from the DC default fund charge cap; and introduce explain and disclose requirements for investment in illiquid assets
- First wave of schemes will start connecting to pensions dashboards

October 2023

- It is expected that valuations with effective dates from 1 October 2023 will need to comply with the new scheme funding legislation and revised code of practice
- Changes to assumptions used for SMPIs will take effect (to be used for DC benefit statements and illustrations on pensions dashboards)

April 2024

- Low earners in net pay schemes to receive top-up payments (payable from 2026/27)

Late 2024

- Subject to consultation in 2023, climate change governance and disclosure requirements may extend to smaller schemes (assets under £1 billion)

Training and Events

Dates currently scheduled for our pensions training seminars are set out below.

Please contact us to discuss your training needs: pensionstraining.enquiries@aon.com

You can find a copy of our training brochure and book online at: www.aon.com/pensionstraining

Pensions Training Courses	Dates
Defined Benefit — Part 1	29 March (London) 14 June (London) 15 August and 16 August (Webinar, a.m.) 31 October (London)
Defined Benefit — Part 2	28 February (London) 25 April and 26 April (Webinar, a.m.) 18 July (London) 12 September and 13 September (Webinar, a.m.) 5 December (London)
Defined Contribution	8 March (London) 26 September (London)
Pension Governance Committee	17 May (Webinar, a.m.) 28 November (London, a.m.)
Aon Pensions Conference 2023	**Dates**
The Future of Pensions – Complexity to Clarity *A multi-city event for those who manage or govern pension schemes.* *Register for your place here.*	28 February (Manchester) 7 March (Edinburgh) 14 March (Birmingham) 21 March (London) 28 March (Bristol)

Other Events

Aon participates in a variety of sector-specific conferences and exhibitions as well as holding regular seminars, webinars, conferences and events focusing on key issues of client interest.

To find out more about our events, go here.

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Contact Us

If you have any questions on In Sight, please speak to your usual Aon consultant or contact:

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About

Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.